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Transcript for AI for Services 2025 Podcast

Series 2, Episode 6

Cracking crypto tax

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Speakers in this episode are (in order of appearance):

- Astrid Ayel, AI for Services Lead, Innovate UK Business Connect
- Daniel Howitt, CEO and Co-Founder of Recap

Transcript:

Animation:

Innovate UK, the UK's innovation agency.

Astrid:

Welcome to the AI for Services podcast series, my name is Astrid Ayel.

In this episode, we welcome Dan Howitt, co-founder of Recap. Recap is a Lincoln-based startup that has developed a tool to make crypto taxes simple.

Dan, I was lucky to meet you right at the beginning of your venture and just wanted to start by going back to that. Tell us how Recap came about.

Daniel:

Yeah, so Recap's journey started in 2013. That's when myself and my co-founder, we got involved in crypto. We got involved in Bitcoin, we'd done some Bitcoin mining, and then as the years progressed, we were also involved in some other cryptocurrency projects.

It got to 2017 where we realised that we really needed to get on top of our tax situation, personal tax situation. And in 2017, there was basically no guidance of how cryptocurrency should be taxed in the UK. There are a lot of conflicting statements.

The Telegraph back then actually had an article which said that Bitcoin may be so speculative, it may be akin to gambling. And this is where myself and my co-founder were kind of thinking, well, maybe we don't need to file our taxes? Maybe it is akin to gambling, right? And my tax advisor strongly advised against that and kind of said, well, this is a form of property. It might not be defined in the legal system with ultimate clarity yet, but this is definitely a type of property and there are chargeable gains associated with it.

That was kind of the wake-up call for us.

We looked at the time at what software can we use to calculate our cryptocurrency taxes and we found a number of software providers in the US that could basically do that, but they weren't catering for UK specific tax rules. Equally, the other kind of issue that we had was we've been involved in crypto from the very start. We're quite privacy-focused individuals and we didn't want to hand all of our cryptocurrency accounting information to a random US company that could basically see every transaction I've ever made. And then,

because of the way blockchains work, they have the potential to look at any future transactions I may make as well.

So what we decided is, there must be a better way to do all of this. There must be a way of calculating your crypto taxes, but without compromising your financial privacy.

And that's when the concept for Recap was born. We built Recap to be an end-to-end encrypted piece of accountancy software. So you can kind of think of it like a walled garden. You can put all of your cryptocurrency transactions into Recap. We'll crunch the numbers. We'll give you all the figures. But those calculations and all of that data, it stays on your machine. It stays in your web browser. We, as a service company, we never see that data.

And the way Recap has developed over time is that has attracted people that have high net worth portfolios, or even accountants that are representing individuals with high-net-worth portfolios as well.

Astrid:

Great. Can you go back to the issue you are solving in terms of you were saying that you wanted to share some of your data but without sharing all of it. Is there a particular data problem in cryptocurrency?

Daniel:

Yeah, there's a massive data problem and the problem really comes down to how fragmented the market is. So, if you're buying stocks and shares, you would typically have maybe one brokerage account and generating your cryptocurrency taxes is going to be straightforward because you're just dealing with one account. And in fact, most brokers in the UK will give you a tax report of your trading history.

But with cryptocurrency, most people have multiple cryptocurrency exchange accounts – Coinbase, Kraken, Binance. So all of their transaction history is kind of fragmented. The first problem that we solve is aggregating all of those transactions and bringing them into one place. We have a number of automated connections with all of the top cryptocurrency exchanges that will automatically pull in your cryptocurrency trading history into Recap.

Now, when that data is in Recap, it stays in your web browser. It doesn't go to our servers, it doesn't go anywhere else so you are the sole custodian of your accounting information. And then, because we've got all of that information in one place, we can then start to apply the tax rules or fair market evaluations to work out what your actual tax numbers are.

Myself and my co-founder, we've been software engineers for a very long time. Data breaches happen because it's around how you manage the net of people having access to a particular pool of data, so if we can restrict where that data goes and who has access to that data, we can prevent things like data breaches. And you being the sole custodian of your own data is the number one way to prevent that.



The key ethos that we're kind of sticking to is that privacy is security – if we can guarantee privacy of your private financial information, we guarantee the security of your private financial information.

And all of this might sound really over the top, right? Why are we going to these lengths to ensure privacy with crypto data? And it's because with cryptocurrency, all the transactions are final. If someone was to extort me out of a Bitcoin, I've got no recourse to get that Bitcoin back ever. That transaction is final. Equally, there's going to be no insurance company that's ever going to write an insurance policy for me losing a Bitcoin. It's just not going to happen.

So all of these kind of controls that we put into place are, we want to guarantee the privacy of your cryptocurrency information using cryptography, which is kind of like the absolute way to guarantee your private financial information. And therefore we can help protect you from things like extortion or all of the other bad things that could potentially happen with your portfolio.

Astrid:

We've talked about sort of personal user experience, but you also work with accountants, right?

Daniel:

Yes, we do. In the very early days when we got started, the majority of people that were looking for Recap were people that knew that they had a tax problem. I think it's pretty fair to say that back then as well, there wasn't many accountants that were kind of up to speed in what they needed to do to calculate somebody's crypto taxes. Much of our work today is actually serving those accountants and they basically use Recap as a layer, so they don't need to understand the intricacies of cryptocurrency. We're an accounting product that kind of augments all of that and creates a way for them to easily understand what's been going on. And that's kind of the majority of our market at the moment.

Astrid:

You were saying that you started back in 2015, then in 2017 started formulating the idea. So you've really seen how much this crypto market has grown since you first started. I'm guessing you were first working with users and now you're working with accountancy firms?

Daniel:

Yeah, when we first got involved in crypto, the market was very small. The first transactions of mine going back to 2013 there was basically no market for cryptocurrency at all. And then when we kind of woke up to the tax problem in 2017, I think we were talking about an asset class with a total market cap of around about 700 billion. If you compare that to other financial instruments, like gold or shares, still a very, very,



very small market at 700 billion. Today, the cryptocurrency market cap is around about 2.2 trillion. So we've had a three to four times increase in the size of the market if we're talking about market caps.

But in terms of users, we've seen a much more dramatic increase in people engaging with cryptocurrency. I think in 2017 there was around about 35 million people around the world that had crypto assets. Today that figure stands at around about 400 million people around the world. So again, dramatic increase in user adoption over the years.

And this was one of the things that we were very worried about when we were starting Recap. Was there an addressable market there? There was certainly the problem from myself and my co-founders perspective of working at our own tax positions, but was this an actual product that we could spool out and develop into a business was kind of like one of the key issues that we were facing. And one of the main reasons why I'm very grateful that we won an Innovate UK grant.

Astrid:

Yeah, it was the right time to get that injection of money and perfectly reflects what Innovate UK ambition is – to fund projects like yourselves at high risk, but have huge potential to succeed.

So what is your focus right now then? Can you tell us a little bit more about the project that you're working on that's also been funded as a follow-on by the programme?

Daniel:

Yeah, sure Astrid, so much of the main focus getting up to today has been building out the core fundamentals of the product, how to account for cryptocurrency, how to generate tax reports. And what we found through our interaction with accountants is that accountants want an environment where they can collaborate with their clients to get to a tax position.

Our software, because we're talking about the privacy ethos, is very much geared around making sure that nobody else can see that data, making sure that only you can see it. But now all of a sudden we're bringing in these collaborators that want to have access to it. So a lot of what we're building at the moment is around encryption techniques that allow us to share client portfolios without compromising our privacy ethos, essentially. So, collaborative encryption. And that allows us to widen the net in supporting accountants that typically work not on a one-on-one basis.

So if I engage an accountant to look at my crypto portfolio, they will often rely on their colleagues to sign off their work. Quite often you can have two or three accountants looking at any one portfolio.

Equally, we're looking at the wider professional services markets. Some of the unique features of Recap enable you to download reports like acquisition reports, source of funds reports, and they can be useful not only to accountants, but also to the wider professional services sector. For example, banks or asset managers, they want to gain access to those reports as well. And, again, we need to make sure that we're

abiding by our privacy ethos and sharing the data in the right way with the right controls, but enforced with cryptography is kind of like the fundamentals of all of this essentially.

Astrid:

Great. So you're working with some accountancy firms on this project?

Daniel:

Yes. We're working with Andersen LLP. Andersen are one of the UK's leading cryptocurrency firms based in London. Very privileged to work with Ben Lee, who's partner there. Andersen have been a long-time client of ours and much of the features that we're building throughout this project have come from their feedback, their needs as an organisation.

We're also working with Louise Lane, who is Associate Director at Wright Vigar Accountants. Wright Vigar actually go all the way back to our initial story. When we first got our first grant for Recap, we needed somebody to make sure we were running the right tax rules, we were making sure that the capital gains tax was right, essentially. Louise has been on our journey from the start – and a relatively small firm in Lincolnshire has turned into a crypto asset specialist accountancy firm in the UK. Very pleased to work with Louise. And again, much of her feedback is shaping how this project is going to be developed over the next few months.

And then we also have Hoptrail. Hoptrail is a unique tool that basically does sanctions checks on cryptocurrency transactions. The reason why we've brought Hoptrail into this project is we want a lot of accountants too, we want them to onboard cryptocurrency clients into their organisation. And this is a massive growth area for accountants. It accesses new wealth, younger generations that now need to find an accountant. But one of the pain points that accountants are experiencing is how do they do anti-money laundering and know your customer checks against cryptocurrency activity? And this is where Hoptrail comes in. Hoptrail, behind the scenes within Recap, will be doing things like sanctions checks, anti-money laundering checks to make sure our clients are abiding by regulatory standards and that accountants can basically take on those clients. That's going to be baked into the software as well.

Astrid:

How are you seeing working with accountants that are wanting to onboard crypto currency clients? I'm guessing there's a lot of education to be made because I'm guessing that lot of accountants will be scared to go in that field?

Daniel:

Yeah, absolutely. We've done a number of trade shows over the years and the survey that we put out is pretty much 50-50 between accountants that are comfortable with cryptocurrency and then the other side, which are just completely not comfortable. And there's almost a demographic side to this. The accountancy sector, age demographic wise is quite old and a lot of those individuals are looking at retiring. A lot of the feedback that we've had is, 'I don't want to learn anything new'. 'I'm retiring in the next five years or so'. And I think that they are underestimating the growth of the industry and why this is something they're going to have to deal with.

Then you've got the other side of the equation, which are the accountancy firms that know this is a massive growth area. They know it's a massive opportunity to onboard new wealth clients, younger generations, and they're kind of fully embracing it.

And I think it's safe to say at Recap, we've been supporting those accountancy firms that really do want to embrace it from the really early days. And they're quite small niche, very specialist firms that want to capitalise on the opportunity.

But now crypto is going mainstream. Every accountancy practice is going to have to deal with this. Our product really is all about augmenting, supporting and educating accountancy firms so they don't have to know the inside out of cryptocurrency. It's just another asset, right? But our product just helps handhold accountants through the process of getting all the data in, crunching the numbers and getting to that tax report, which is the end goal of the product, right?

Astrid:

So you've really been working with early adopters and what do you see the risk is then if people don't get on board, if they keep on ignoring it?

Daniel:

Yeah, I mean the risks are massive. From an individual perspective, if you have tax liabilities and you haven't filed a tax return, then you could be exposed to extreme penalties and fines.

Just saying that you didn't know that crypto was taxable is not a get out of jail card. It's unlikely that HMRC are going to have any kind of empathy for that.

Essentially, we're talking about taxation and I think this is one of the major challenges at the moment – as the market has developed, people have literally woken up to the fact that crypto is taxable. But there are still a number of people that are completely in the dark around this, and a lot of this goes back to how crypto works. When I gave the example of trading stocks and shares and you have a brokerage report, it's very easy when you're trading stocks and shares to work out if you're making gains or losses, because you

you buy some Apple stock, you sell it, you make a profit, you're going to up some pounds, right, in your brokerage account. That makes it obvious if you've made a gain or a loss.

The key thing that trips everybody up with crypto is we have people that trade one crypto asset directly for another. So people might be sat there on their phones, they might have acquired some Bitcoin, they might have then swapped that Bitcoin for some Ethereum – that's a taxable event. They might have then swapped it for some Ripple – taxable event. And it's much harder to unpick if you're making gains or losses. A lot of people's expectation is you only pay tax on what comes back into your bank account, which is completely not true, by the way. Every trade is a taxable event. And unless you really crunch the numbers and get on top of your accounting, you're not going to know if you have a gain or a loss and therefore know if you need to file. You need to be really proactive when it comes to crypto in terms of managing your tax position. Whereas with stocks and shares, it probably is more obvious. Or you might be trading stocks and shares in an ISA where you don't even have to think about this at all.

Astrid:

How much have you grown since the beginning?

Daniel:

We've grown quite significantly. I'm going to have to keep our revenue figures under wraps, but in terms of customers that we support, compared to where we were maybe 2019, 2020, we have four times the amount of clients that we had back then.

We're growing quite substantially at the moment. We're in our summer kind of cool off period at the moment, but we're about to ramp up into the UK tax season, which is November, December, January and February. That's when we see the vast majority of people coming to us.

Astrid:

And you said that the accountant that you were working with as a consultant at the beginning is now essentially an accountancy firm that is specialised in that area, isn't it?

Daniel:

Yeah. We were based on knocking on a lot of accountants' doors when we won that initial grant, looking for someone to help us. Basically to make sure we're getting the tax rules right. A lot of people were very uncomfortable about crypto. And Louise was the one that held that door open, was interested to learn more. And now I would say Louise is easily one of the UK's leading cryptocurrency accountants by far. She has been a massive, massive help in creating Recap. And she uses it exclusively within her firm as well.



Astrid:

And so what can you share any for our audience – I think there will be some people that are just probably starting on their journey that have just had an idea and want to fund a startup. What lessons could you share that you've learned along the way?

Daniel:

Starting a startup, especially a tech startup, is never straightforward. And I think the key thing that you need to get to as quickly as possible is just having a product that people can use. And that was kind of one of the things that myself and my co-founder did quite quickly.

We're both software engineers and we kind of had an early beta of Recap developed in about six months. And that was enough to help people use it and give them the inspiration of where the product was going and perhaps where the business was going.

The second thing I would say is apply for an Innovate UK grant. There was a number of occasions where we were looking for capital, we were really early stage, we by far didn't have deep pockets as founders and we didn't even have like any kind of angel network or any kind of connections that could help fund the business. We did have some early conversations with maybe a couple of early-stage VCs and things. No one's going to take you seriously unless you've got a product or you've got some kind of traction. So this is where the Innovate UK grant really helped. Once we got the grant and we put that application in and we won it, we were going to these angel investors with a piece of paper saying – we've won a grant, what we need is the matched funding. And that was a very easy way to have a conversation about raising capital. We managed to extend our runway early on till 18 months as a result of using that grant as leverage. But I would say without that, we would have really struggled back then.

We're a company that's not based in London, we're not based in Manchester where there is kind of like a thriving angel investment community. It's a very small community. What really got us off the ground was taking that piece of paper that was the grant and then we got a few small cheques from what I would call just like local entrepreneurs. They just wanted to see us win and to help us get started. Very grateful for those early-stage cheques.

Astrid:

And so now what does the future hold for Recap? What are your aspirations?

Daniel:

More widely, we have businesses now that are completely embedded into the cryptocurrency ecosystem. They take payments in stable coins. They invoice in Bitcoin, all those kinds of things. And I think that's

naturally where Recap will end up going. A full suite of crypto accounting services, not only for individuals, but also for companies and businesses.

Astrid:

To finish off, is there one piece of content that you'd like to recommend to our listeners?

Daniel:

Yeah, if you're unsure on if you need to pay tax on your crypto, we talked about you might think it's based on what you get back into your bank account. It definitely is that. And if you want to have a look at all the different tax points for crypto, you can have a look at our UK tax guide that will take you through things like gifts, trading, staking rewards, and basically just give you some clarity on what you need to pay tax on.

Astrid:

Perfect. Is it possible to do it by yourself?

Daniel:

Yeah, in the UK, the whole tax filing process is self-assessment. So you can use Recap yourself, generate your tax reports, and then you can basically use the figures from our tax reports to submit your self-assessment return. You could definitely do that.

I would say though, if you are involved in cryptocurrency, if you've got a lot of transactions, or if you've got a high net worth of volume that you've been putting into the market, I would strongly advise that you use a tax advisor to help you submit your tax return because there are still some grey areas when it comes to crypto and taxes, and those grey areas are not going to be solved anytime soon. It's just where we are in the maturity stage of the asset class. That would be my advice.

Astrid:

And so just one more question – are there any channels to feedback those grey areas to the government or how are you finding, because it's such a nascent area still, an area that as you said scare people off or that people don't want to get into. How is the conversation evolving then? Is it easy to make things change? How does it work?

Daniel:

The UK has always been a financial hub. I think politicians have been aware that crypto is just the next generation of financial services. Whether you love it or hate it, we kind of have to support it. This is how our economy works. We are a financial services-based economy. And we were quite lucky that a couple of

years back when Rishi Sunak was chancellor of the Exchequer, he actually announced that he wanted the UK to be a crypto hub. And as a result of that, there has been a lot of efforts at the FCA to develop a regulatory regime for crypto assets, which seems to be coming on quite nicely. And I think we'll help make the UK a home to cryptocurrency exchanges or even enabling banks and asset managers to offer cryptocurrency-based financial services in the future. On the tax side of things, HMRC have been very proactive in creating guidance for individuals in the UK.

Astrid:

It's in their interest to make sure that they get the taxes from those assets, right?

Daniel:

Absolutely and if you look at all of the government departments, HMRC have been the most proactive and were the earliest to kind of put out any kind of guidance or publications on it – because they want to give that clarity.

We've been engaging with HMRC directly as an organisation. We speak to the head of crypto assets on occasion, and we're also involved with an industry trade group called Crypto UK. Through that trade group membership, that gives us access to speaking directly with HMRC.

Recap is on HMRC's Industry Crypto Asset Industry Roundtable Working Group. So again, we get to have face time with HMRC. We get to ask questions. They want to learn as much as we want to get answers. So they have been quite forthcoming in allowing us to put questions to them. And then we've also had changes of guidance as a result of that – and even some consultations. There was some clarity that came out in the tax guidance a couple of years ago around decentralised finance, lending and staking.

Crypto UK, as well as Recap and a number of accountants were quite negative towards that guidance. We thought it was quite detrimental to how people would calculate their taxes. And HMRC responded and put out a call for evidence, which later turned into a consultation. We are aware that HMRC have created some draft legislation to basically to right what we perceive as wrong, essentially.

So that's an example of how we've engaged, how we've helped support them with examples and perhaps some guidance of how to create a fair tax system for decentralised finance. And that's been taken through into a stage of having some draft legislation, which may or not pass in the future, it depends on what kind of push we have. But we have managed to influence at the top level of government.

Astrid:

Yeah, it's great to hear how the conversation is open and that there are ways to discuss things and that they are taken seriously.



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Thanks very much, Dan. That was such an insightful conversation. We'll share the links with our audience.
Thanks very much for your time.

Daniel:

You're very welcome, Astrid. Thank you.

Animation:

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